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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

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August 1, 2002

PUBLIC VERSION

Ms. Marlene H. Dortch
Secretary
Federal Communications Commission
445 Twelfth Street, SW
Washington, DC 20554

**Re: Petition for Forbearance of Iowa Telecommunications Services, Inc.
d/b/a Iowa Telecom, CC Docket No. 01-331**

Dear Ms. Dortch:

Pursuant to Section 1.1206 of the Commission's rules, Iowa Telecommunications Services, Inc. ("Iowa Telecom") hereby files this letter to address outstanding issues relating to its Emergency Petition for Forbearance ("Petition") in the above-captioned proceeding. Because portions of the exhibits to this letter contain Iowa Telecom's proprietary commercial and financial information that is entitled to confidential treatment, the company is submitting both public and confidential versions of this letter: the confidential version includes unredacted exhibits; the public version includes redacted exhibits that may be made available for public inspection. By separate letter of this same date, Iowa Telecom is submitting a request for confidential treatment of the proprietary commercial and financial information contained in the exhibits to the confidential version of this letter.¹ Accordingly, Iowa Telecom requests that only the public version of this letter, with redacted exhibits, be placed in the public file in this proceeding.

On July 18, 2002, Derek Yeo and I had an ex parte meeting with Mr. Aaron Goldschmidt and Ms. Nese Guendelsberger of the Wireline Competition Bureau

¹ If the Commission finds, for any reason, that it cannot maintain the confidentiality of the proprietary information contained in the exhibits to the confidential version of this letter, Iowa Telecom requests that the Commission return the confidential documents to Iowa Telecom pursuant to Section 0.459(e) of the Commission's rules.

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("Bureau").² During that meeting, the Bureau staff asked several questions that required some additional fact finding by the company. This letter provides responses to those questions.

The information in this letter is divided into three sections. First, Iowa Telecom provides additional details of the proposed infrastructure investments that it would be able to make if granted relief in this proceeding. Second, we provide a brief response regarding the depreciation ratio associated with Iowa Telecom's plant. Third, Iowa Telecom provides some additional information to show that the pending sale of two of its 296 exchanges is expected reasonably to have only a *de minimis* impact on the company's forward-looking costs.

I. Proposed Infrastructure Investments

In its Emergency Petition, Iowa Telecom estimated that "plant investments of more than \$80 million will be necessary to provide Iowa Telecom's customers with improved voice service quality and access to broadband data service."³ Of this amount, the company estimated that at least \$45 million will be required for the "[r]eplacement of switches and switch upgrades;"⁴ "[i]mprovements to interoffice transport facilities will require an additional \$10 million;"⁵ and the remainder will be required for "necessary loop upgrades."⁶ Since the filing of the Petition in November 2001, Iowa Telecom has developed a "2002 Network Improvement Plan" ("Improvement Plan"), which provides details of more than \$110 million of planned infrastructure improvements. See Exhibit A (with attachments). These network improvements are necessary to: replace obsolete switches; install necessary software upgrades to salvageable switches; reduce the number of host switches from 85 to a more cost efficient "core" number of 10; make host switches compliant with the requirements of the Communications Assistance for Law

² See Letter from Gregory J. Vogt, Esq., Counsel for Iowa Telecom, to Ms. Marlene H. Dortch, Secretary, FCC, July 19, 2002.

³ Iowa Telecom Emergency Petition for Forbearance, Nov.26, 2001, at 15 ("Emergency Petition").

⁴ *Id.*

⁵ *Id.*

⁶ *Id.*

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Enforcement Act ("CALEA"); install additional fiber optic lines necessary to create an efficient interoffice network with route redundancy; extend digital subscriber line ("DSL") capability to all exchanges; extend the availability of custom local area signaling service ("CLASS") features to additional exchanges; and to replace obsolete lead-sheathed cable and analog loop carrier. These infrastructure investments are discussed in additional detail in the attached June 25, 2002 Network Plan Evaluation prepared on behalf of Iowa Telecom by GVNW Consulting, Inc. See Exhibit B.⁷

To further assist the Bureau staff, Exhibit C segregates these various network improvements into the three broad categories – loop, switch, and interoffice transport – that were identified in the Emergency Petition. After excluding costs that are not part of Iowa Telecom's revenue requirement for access charges, Exhibit C shows that planned switch-related costs exceed \$56 million, planned transport-related costs exceed \$21 million, and the necessary loop upgrades will exceed \$26 million. See Exhibit C.⁸

II. Depreciation

The Bureau staff have requested additional information regarding the depreciation ratio associated with Iowa Telecom's existing plant in relation to those of Regional Bell Operating Companies ("RBOCs"). While Iowa Telecom acknowledges that the 1999 ARMIS data for GTE Midwest, Inc. show that the depreciation ratio for its Iowa plant was not out of line with other RBOCs, this statistic is not dispositive. First, the depreciation ratio for central office equipment and cable and wire facilities, the most relevant categories of capital equipment for this Petition, are

⁷ Iowa Telecom filed Exhibits A and B with the Iowa Utilities Board ("IUB") in an intrastate ratemaking proceeding that is currently pending. *In Re: Iowa Telecommunications Services, Inc., d/b/a Iowa Telecom*, Docket No. RPU-02-4. Iowa Telecom is requesting confidential treatment of attachments 2, 3, 4, and 6 of Exhibit A and selected portions of Exhibit B. Iowa Telecom requested and received confidential treatment of the same data in the IUB proceeding.

⁸ Iowa Telecom is requesting confidential treatment of selected information in Exhibit C that is derived from confidential information contained in attachments 2, 3, and 4 of Exhibit A. This information, like the information in attachments 2, 3, and 4, is commercial information of a kind that is customarily not released to the public.

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considerably higher than the overall average and are close to 60%. Second, the depreciation ratio is not an outcome determinative statistic. As the description of Iowa Telecom's planned infrastructure investments in Section I above demonstrates, the company has a genuine and pressing need for investment in many critical areas. This demonstrated need cannot be dismissed simply because the company's depreciation ratio does not meet some unspecified benchmark. Iowa Telecom has never claimed that infrastructure investments that it needs to make are justified by its depreciation ratio. More importantly, the Commission has never, to Iowa Telecom's knowledge, used a carrier's depreciation value as a dispositive factor in the determination of whether forbearance relief is in the public interest. Iowa Telecom has demonstrated that significant public interest benefits would flow from the requested forbearance, and these benefits have not been refuted.

III. Impact of the Proposed Sale of Two Exchanges

In November 2001, Iowa Telecom entered into an agreement with Norway Rural Telephone Company ("Norway") under which Norway will acquire the assets of Iowa Telecom to provide local exchange service in two of its exchanges, Corwith and Klemme. The two parties have sought the appropriate regulatory approvals from the Commission and the Iowa Utilities Board ("IUB"). On March 12, 2002, the IUB approved the parties' joint application for discontinuance of service by Iowa Telecom and the transfer of Iowa Telecom's certificate of public convenience and necessity to Norway.⁹ Iowa Telecom's application to discontinue domestic telecommunications service pursuant to Section 214 of the Communications Act was automatically granted on June 3, 2002, on the sixtieth day after the release of the Bureau's public notice.¹⁰ The parties' joint petition for waiver of the definition

⁹ *In Re: Iowa Telecommunications Services, Inc., d/b/a Iowa Telecom, and Norway Rural Telephone Company*, Docket No. SPU-02-2, Order Approving Joint Application for Discontinuance of Service and Authorizing Transfer of Certificate (rel. Mar. 12, 2002).

¹⁰ *Public Notice, Comments Invited on Iowa Telecommunications Services, Inc. d/b/a Iowa Telecom Application to Discontinue Domestic Telecommunications Services*, Comp. Pol. File No. W-P-D-575, DA 02-753 (rel. Apr. 3, 2002).

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of "study area" related to the proposed acquisition is currently pending before the Bureau.¹¹

This proposed sale of two exchanges, if approved, would likely have only a *de minimis* impact on Iowa Telecom's forward-looking costs. The two exchanges combined serve only approximately 800 access lines,¹² less than 0.3% of the company's total lines. Moreover, the facilities deployed at these exchanges are not materially different from those in Iowa Telecom's other exchanges. Nortel DMS-10 switches are deployed in both exchanges; the generic version at each exchange is the same as that deployed on DMS-10 switches at many other Iowa Telecom exchanges. The sale of these exchanges, therefore, is expected reasonably to have only a *de minimis* impact on the company's forward-looking costs.

If you have any questions regarding this filing, please call the undersigned.

Sincerely,



Gregory J. Vogt
Counsel for Iowa Telecommunications
Services, Inc.

cc: Aaron Goldschmidt
Nese Guendelsberger
Jay Atkinson
Noel Uri

WRFMAIN 1154503.2

¹¹ Public Notice, *Norway Rural Telephone Company and Iowa Telecommunications Services, Inc. d/b/a Iowa Telecom Seek a Waiver of the Definition of "Study Area" in Part 36 of the Commission's Rules and Waiver of Section 69.3(e)(11) and Section 69.605(c) of the Commission's Rules*, CC Docket No. 96-45, DA 02-375 (rel. Feb. 19, 2002).

¹² See *id.* at 1.

A

EXHIBIT A

Iowa Telecom Inc.

2002

Network Improvement Plan

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Map of Proposed Network.....attachment 6 (Confidential)

Introduction

Following the ownership transfer of the GTE Iowa Local Exchange properties on July 1, 2000, the Iowa Telecom Engineering department began development of a Network Improvement Plan. This plan has evolved over the past months to become what is now the Iowa Telecom, 2002 Network Improvement Plan. The plan purpose was to develop a network improvement strategy that identified and addressed current and future network requirements that would provide both operational efficiencies and product and service enhancements. The criteria utilized to guide the plan development was:

- **Digital Subscriber Line (DSL) to all exchanges**
- **Equal features available to all customers**
- **Elimination of analog subscriber carrier**
- **Replacement of lead distribution facilities**
- **Additional fiber deployment for inter-office transport**
- **Reduction of Host Switching Locations**

The total cost of the plan is approximately \$110,000,000. The Iowa Telecom 2002 Network Improvement Plan is intended to provide a road map for the updating of the existing network as well as deployment of enhanced services.

As customer demand has increased for additional products and services such as, more extensive CLASS services, voice mail, faster dial-up Internet speeds, DSL, and route redundancy, it is apparent that significant network modifications are required to the Iowa Telecom network

In addition to modifications required to accommodate requests for more sophisticated products and services, the network operational efficiencies were also reviewed. The current Iowa Telecom Network is made up of 296 exchanges, of which 85 are host-switching centers and 211 are remote switching offices. A reduction in the number of host switching locations will allow for ease of training and a reduction in the number of spare cards for maintenance purposes. The Iowa Telecom Network Improvement Plan calls for 10 host-switching locations at completion of the plan. It is not

possible to develop a plan that only addresses modifications to the switching platforms. A plan to evolve the switching network must also include enhancements to the inter-office facilities (IOF). In the Iowa Telecom network that is in place today, both copper and fiber facilities are utilized for IOF transport. To improve both the quality and expandability of the IOF, the plan addresses the replacement of copper and expansion to the existing fiber. In most cases the expansion of existing fiber capacity can be accomplished by updating the fiber optic terminals. In areas where copper will be replaced by fiber, route redundancy is included in the plan. The plan calls for building fiber rings that will provide transport to exchanges now served by copper, as well as connect to existing fiber for a SONET ring architecture. Iowa Telecom has received multiple inquiries from major customers in our service territory for the route redundancy that SONET fiber rings provide.

In addition to the Network Improvement Plan for switching and IOF transport, subscriber distribution plant must be updated to accommodate the provisioning of the advanced telecommunications services requested by customers. The current local exchange distribution plant is adequate for providing plain old telephone service (POTS). However, providing enhanced services such as high-speed data, enhanced CLASS services, and even adequate dial-up Internet speeds were not a consideration when the majority of the current network was deployed. The current network is inadequate and often incapable of providing these types of data services.

The technology utilized to provide service to Iowa Telecom customers today ranges from lead cable and analog subscriber carrier to direct interfaced, fiber fed digital line concentrators (DLCs). This creates a situation where not all customers in the same exchange have accessibility to the same advanced services, nor accessibility at the same level of quality. The Network Improvement Plan addresses the replacement of older technologies.

As a local exchange carrier, Iowa Telecom must also comply with requests from competitive local exchange providers (CLECs) and regulatory agencies concerning availability of local interconnection and implementation of Local Number Portability (LNP). The competitive local exchange market in Iowa has caused Iowa Telecom to expend considerable capital in small exchanges to accommodate local interconnection requests and Local Number Portability. At the completion of the Network Improvement Plan, software for LNP would be loaded in the host office and would accommodate LNP

request for any exchanges served by that host office. This would also be the case for Communication Assistance to Law Enforcement Act (CALEA) requests. The completed Network Improvement Plan will provide Iowa Telecom the capability to meet the software needs for LNP and CALEA in ten (10) host-switching locations. Currently this would require software and some hardware in eighty-five (85) host-switching locations.

The Network Improvement Plan does not incorporate new technology that is currently under development. The plan was developed utilizing current proven technology. Cost estimates are based on the price of the current technology. Since the plan would be implemented over a multi-year period, there may be some change in technology that would result in an adjustment to the plan cost.

Plan Description

The network plan was developed utilizing current technology pricing information. As the plan was developed, projects were divided into three (3) major categories. The three (3) categories are:

Category #1 Broadband Capability

In relationship to the plan, Broadband Capability will include expenditures associated with deployment of data services such as Digital Subscriber Line (DSL), increased dial-up Internet connections, and large capacity transport such as DS3 and higher data transport for business customers.

To accomplish the broadband capable deployment, updates and hardware additions throughout the network are required. Expenditures in addition to fiber terminals and DSL equipment, would include placement of fiber optic cables, and the removal of technologies such as analog subscriber carrier, and the replacement of lead distribution cables.

Category #2 Products and Services

As it relates to the plan, products and services can be defined as expenditures that provide a new switched based service such as Voice Mail, LNP, CALEA, and enhanced vertical services. Also included in this category are the network updates that are required to provide the services. This includes replacement of Vidar switches, software updates and enhancements to existing switches, and deployment of voice mail systems.

Category #3 Network Evolution

As it relates to the plan, the Network Evolution category will include the upgrades to distribution plant not covered in category #1, the reduction of host switching centers, and building modifications required to accommodate hardware additions in the switching center locations.

Included in this document are four (4) attachments that provide information at an exchange level, sorted by project type, category type, investment by exchange, and priority of project. The spreadsheets clearly illustrate the dollar amount of investment and the different areas of the network being addressed.

The spreadsheets included in this document are:

Attachment 1 Project Type:

The overall Network Improvement Plan is further summarized in the project type spreadsheet. This spreadsheet portrays the dollar amounts to be expended in different areas of the network.

Attachment 2 (Confidential) Category Type:

Provides information as to which category the project is assigned. Category one (1) is broadband capability related, Category two (2) is product and services related, and Category three (3) is network evolution related.

**Attachment 3
(Confidential)**

Dollars Committed by Exchange:

The estimated dollar amounts per the plan that will be expended for that specific exchange for each project category.

**Attachment 4
(Confidential)**

Priority Order:

The category one (1), category two (2), and Category three (3) projects are linked. The priority order spreadsheet provides the order in which the projects would be completed. Project priority was established via engineering analysis of network requirements by exchange.

Network Maps

Included in the last two pages of this document are the Iowa Telecom network maps. The first map is a map of the existing Iowa Telecom network. The second map is a confidential map of the network as it would be at the completion of the Network Improvement Plan.

Conclusion

The completion of the \$110,000,000 Iowa Telecom 2002 Network Improvement Plan will result in a network capable of providing much improved quality of service and additional services not available to all areas today. The plan completion would accomplish the list of criteria provided as a guide for plan development.

The completion of the Iowa Telecom 2002 Network Improvement plan will provide rural communities served by Iowa Telecom the communication services necessary to compete for economic growth opportunities and remain viable in today's "electronic" based economy.

IOWA TELECOM, INC

2002

NETWORK IMPROVEMENT PLAN

SUMMARY BY PROJECT TYPE

Attachment 1

BROADBAND CAPABILITY CATEGORY 1

Analog CXR Removal	\$4,713,000
Defective Air Core Replacement	\$4,500,000
DLC Direct Interface Capabilities	\$930,000
DSL from CO	\$5,448,000
DSL from DLC	\$3,320,000
Fiber/Terms-H/R Links	\$9,200,000
Fiber-Establish Rings	\$4,250,000
Fiber Optic Terminals-Establish Rings	\$4,500,000
Growth	\$1,945,000
Lead Cable Replacement	\$5,123,000
Obsolete Equip, Svcs, Etc	\$8,300,000
	\$52,229,000

PRODUCTS & SERVICES CATEGORY 2

CALEA	\$2,050,000
DCO Switch Replacement	\$759,000
Generic Upgrades	\$3,798,000
Local Number Portability	\$1,600,000
New Vertical Services	\$400,000
VIDAR Switch Replacement	\$2,408,000
VoiceMail Host	\$3,850,000
	\$14,865,000

NETWORK EVOLUTION CATEGORY 3

Building Upgrade-Switch Replacement	\$1,600,000
Est Host Switch-Network Evolution Plan	\$2,350,000
Host Switch Reduction	\$39,311,000
	\$43,261,000

TOTAL NETWORK IMPROVEMENT PLAN \$110,355,000

projtypesummary6-26.xls

Exhibit A, Attachment 2

**This confidential attachment has been redacted
from this public version of Exhibit A**

Exhibit A, Attachment 3

**This confidential attachment has been redacted
from this public version of Exhibit A**

Exhibit A, Attachment 4

**This confidential attachment has been redacted
from this public version of Exhibit A**



KEY

- VIDAR
- DCO
- DMS18
- DMS18
- OTDS
- SSD
- EXCHNAME

Exhibit A, Attachment 6

**This confidential attachment has been redacted
from this public version of Exhibit A**

